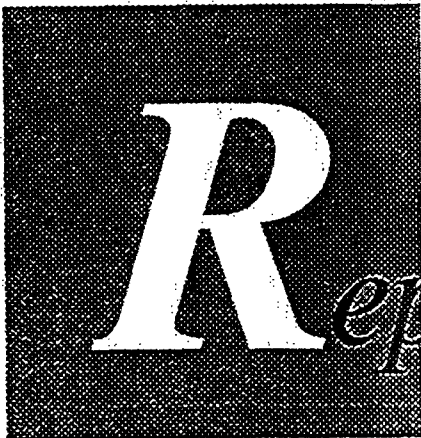




valuation



report

ASSESSMENT OF THE DOD BIENNIAL
FINANCIAL MANAGEMENT IMPROVEMENT PLAN

Report No. 99-123

April 2, 1999

Office of the Inspector General
Department of Defense

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Acronyms

A&T	Acquisition and Technology
CFO	Chief Financial Officers Act of 1990
DFAS	Defense Finance and Accounting Service
DPAS	Defense Property Accountability System
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
GPRA	Government Performance and Results Act
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment
SM/UR	System Manager/User Review
USD(C)	Under Secretary of Defense (Comptroller)



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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April 2, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION AND
TECHNOLOGY)
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
UNDER SECRETARY OF DEFENSE (PERSONNEL AND
READINESS)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Evaluation Report on the Assessment of the DoD Biennial Financial
Management Improvement Plan (Report No. 99-123)

We are providing this report for review and comments. We conducted the evaluation as part of our responsibility under the Federal Financial Management Improvement Act of 1996, and in support of our audit of the FY 1998 DoD Agency-wide financial statements, to report on DoD plans to improve financial management systems.

We considered comments received from the Under Secretary of Defense (Comptroller) on a draft of this report when preparing the final report. These comments were coordinated with the Under Secretary of Defense (Acquisition and Technology), the Under Secretary of Defense (Personnel and Readiness), and the Assistant Secretaries of the Military Departments for Financial Management. The comments and subsequent actions were generally responsive to our recommendations. We added two recommendations after issuing the draft report. We request that the Under Secretary of Defense (Comptroller) provide comments on the additional recommendations, and that the Under Secretary of Defense (Acquisition and Technology), the Under Secretary of Defense (Personnel and Readiness), and the Secretaries of the Military Departments provide comments on Recommendations 1.d., 1.e., 1.f., 2.f., and 2.g. by June 1, 1999, that conform to the requirements of DoD Directive 7650.3.

We appreciate the courtesies extended to the staff. Questions on the evaluation should be directed to Mr. Richard B. Bird at (703) 604-9175 (DSN 664-9175) (rbird@dodig.osd.mil) or Mr. Jack L. Armstrong at (317) 510-3846 (DSN 699-3846) (jarmstrong@dodig.osd.mil). See Appendix F for the report distribution. The evaluation team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-123
(Project No. 8FI-2024)

April 2, 1999

Assessment of the DoD Biennial Financial Management Improvement Plan

Executive Summary

Introduction. In the context of this report, "financial systems" refers to finance, accounting, and nonfinancial feeder systems, all of which are used to generate DoD financial management reports. Deficient financial management systems are a primary reason why auditors have been unable to render favorable opinions on DoD financial statements. The Federal Managers' Financial Integrity Act of 1982, the Chief Financial Officers Act of 1990, the Federal Financial Management Improvement Act of 1996, and the National Defense Authorization Act of 1998 (the Authorization Act) require reporting on the status of financial management system improvement efforts. The DoD is attempting to address those requirements in the Biennial Financial Management Improvement Plan (Biennial Plan), which was mandated by the Authorization Act.

Objectives. This evaluation was conducted pursuant to the responsibility of the Inspector General, DoD, under the Federal Financial Management Improvement Act of 1996 to assess the progress made toward substantial system compliance with applicable guidelines and standards. Our specific objective was to determine whether the first Biennial Plan was comprehensive and reasonable.

Results. In the September 1998 Biennial Plan, DoD made a valid attempt to compile and report all the necessary data on financial management systems. The Biennial Plan could be improved if it better identified the deficiencies for each financial management system and disclosed the remedies, resources, and intermediate target dates necessary to bring DoD financial management systems into substantial compliance. The Biennial Plan should also identify an overall milestone date for all financial management systems to achieve full compliance, and should better address the Special Interest Items directly related to financial management systems, as required by the Authorization Act. The Biennial Plan should also be purged of unsupported opinions that have nothing to do with planned actions to overcome impediments to financial management improvement.

The role of the DoD components other than the Office of the Under Secretary of Defense (Comptroller) in formulating the Biennial Plan was limited, underscoring the need for more emphasis on a fully integrated management approach. The Biennial Plan could be developed into an excellent management tool for controlling and reporting on the status of the financial management systems improvement effort, but all major DoD components need to take an active role in formulating and executing the Biennial Plan.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Acquisition and Technology), the Under Secretary of Defense (Comptroller), the Under Secretary of Defense (Personnel and Readiness), and the Secretaries of the Military Departments evaluate all finance, accounting, and feeder systems to identify specific deficiencies and prepare a plan to correct and fund corrections of the deficiencies. We recommend that Memorandums of Agreement be prepared between the feeder system owners and the Defense Finance and Accounting Service to provide visibility and ensure adequate coordination on efforts to correct system deficiencies and achieve compliance with evolving Federal accounting standards. We recommend that the Under Secretary of Defense (Comptroller) ensure the next version of the Biennial Plan will identify the specific deficiencies, remedies, resources, and intermediate target dates for correcting each financial management system; identify an overall milestone for correcting all financial management systems; address the Special Interest Items required by the National Defense Authorization Act of 1998; and review the systems inventory and include all critical financial management systems in the Biennial Plan. We also recommend that the Under Secretary delete inappropriate content in the Biennial Plan, as discussed under "Other Matters of Interest" in this report. We added two recommendations after issuing the draft report. These recommendations are to complete cost analyses for each finance, accounting, and feeder system to determine the estimated costs of correcting all system deficiencies, and to include the results of the cost analyses in the second version of the Biennial Plan.

Management Comments. The Under Secretary of Defense (Comptroller) provided comments on a draft of this report on March 3, 1999. These comments were coordinated with the Under Secretary of Defense (Acquisition and Technology), the Under Secretary of Defense (Personnel and Readiness), and the Assistant Secretaries of the Military Departments for Financial Management. DoD management partially concurred with all recommendations except for one, and stated that the Biennial Plan is a high-level strategic plan designed to meet legislative reporting requirements, to inform Congress and the President of actual and planned progress, and to guide DoD in further improving financial management. DoD management stated that the level of detail we recommended is not suitable for the Biennial Plan; however, the Under Secretary of Defense (Comptroller) issued a data call to the DoD components on March 22, 1999, that meets the intent of most of our recommendations concerning improved content of the Biennial Plan. A discussion of management comments is in the Finding section of the report, and the complete text of the comments is in the Management Comments section.

Audit Response. The Under Secretary of Defense (Comptroller) comments and subsequent actions were generally responsive to our recommendations. We added two recommendations after issuing the draft report. We plan to work with the Department to improve the next version of the Biennial Plan and to develop a better integrated overall management control framework for the systems improvement effort needed to achieve CFO Act compliance. We request that the Under Secretary of Defense (Comptroller) provide comments on the additional recommendations, and that the Under Secretary of Defense (Acquisition and Technology), the Under Secretary of Defense (Personnel and Readiness), and the Secretaries of the Military Departments provide comments on the final report by June 1, 1999.

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Background

Chief Financial Officers Act. The Chief Financial Officers (CFO) Act of 1990, as amended by the Federal Financial Management Act of 1994, requires DoD to prepare audited financial statements annually. For FY 1998, DoD prepared financial statements for the reporting entities in Table 1, in addition to the DoD Agency-wide financial statements, in accordance with Office of Management and Budget (OMB) guidance.

Table 1. DoD Entities to be Included in FY 1998 DoD Agency-wide Financial Statements	
Army General Fund	Army Working Capital Fund
Army Corps of Engineers, Civil Works Program	Navy General Fund
Navy Working Capital Fund	Air Force General Fund
Air Force Working Capital Fund	Military Retirement Trust Fund
Defense Finance and Accounting Service Working Capital Fund	Defense Logistics Agency Working Capital Fund

Accounting data for Other Appropriated Fund Defense Agencies and Other Working Capital Fund Defense Agencies will be included in the FY 1998 DoD Agency-wide financial statements, but separate statements will not be issued.

Previous Financial Statement Audits. Financial statement audits of various DoD reporting entities have been performed since FY 1988, when the General Accounting Office attempted to audit the Air Force General Fund. Except for "clean" opinions on the Military Retirement Trust Fund, auditors have been unable to issue favorable audit opinions on any major DoD financial statements.

Primary Reasons for Issuing Disclaimers of Opinion. Deficient financial management systems (finance, accounting, and feeder systems) are the primary reason that auditors have been unable to render favorable opinions on the DoD financial statements. Specifically, systems supporting DoD financial statements do not have integrated, double-entry, transaction-driven general ledgers to compile and report accurate, reliable, and auditable information. The information is not auditable because the systems cannot produce an audit trail of information from occurrence of a transaction through recognition in the accounting records and ultimately to the financial statements. The financial management systems also cannot provide audit trails from the financial statements back to the originating

transactions. In addition, major deficiencies have been identified in internal controls and compliance with the still evolving Federal accounting requirements and standards. The systems' inadequacies caused material uncertainties as to the reasonableness of billions of dollars of entries on the DoD financial statements.

Magnitude of DoD Assets and Revenues. In FY 1998, the DoD Agency-wide financial statements reported total assets of \$591 billion, total liabilities of \$949 billion, a total net cost of operations of \$280 billion, and total budgetary resources of \$604 billion.

Responsibility for Reliable Financial Management Data. The Military Departments, Defense agencies, and the Defense Finance and Accounting Service (DFAS) are responsible for the reliability of financial management data. DFAS reported that approximately 80 percent of the data reported on the financial statements originates in the feeder systems owned by the Military Departments and Defense agencies. Feeder systems contain the day-to-day operating information that needs to be translated into financial information and processed in finance and accounting systems to be useful for financial managers. Some examples of feeder systems are the acquisition and logistics systems. The reliable input, processing, and eventual reporting of financial data into the finance and accounting systems is the responsibility of the Military Departments and Defense agencies. When data are supplied to the finance and accounting systems, the reliability of the data becomes the responsibility of the DFAS. DFAS then uses amounts reported through the accounting systems and information collected from data calls to produce the annual financial statements.

Progress in Correcting System Deficiencies. Initiatives to correct system deficiencies began in August 1991, when DFAS developed a plan to decrease the number of DoD accounting systems and to correct system deficiencies. This plan and subsequent plans did not include corrective actions for feeder systems. Although progress has been made in reducing the number of accounting systems, limited progress has been made in identifying and correcting system deficiencies in the financial management systems.

Objective

The objective was to determine whether the DoD Biennial Financial Management Improvement Plan (the Biennial Plan) was comprehensive and responsive to requirements. See Appendix A for a discussion of the scope and methodology. Appendix B lists prior audit coverage.

Financial Management Systems Improvement Plan

DoD made a valid attempt to compile and report all the necessary data on financial management systems in its first Biennial Plan. The Biennial Plan could be improved if it identified the deficiencies for each financial management system and disclosed the remedies, resources, and intermediate target dates for bringing the financial management systems into substantial compliance. The Biennial Plan should also identify an overall milestone date for all financial management systems to achieve full compliance, better address the Special Interest Items required by the Authorization Act, and be purged of unsupported opinions. The Biennial Plan could be developed into an excellent tool for controlling and reporting on the status of the financial management systems improvement effort, but all major DoD components need to take an active role in formulating and executing the Biennial Plan.

Statutory Reporting Requirements

The Biennial Plan was prepared to meet various statutory reporting requirements. The information in the Biennial Plan is intended to satisfy the following statutes.

Requirements in Federal Managers' Financial Integrity Act of 1982 for Section IV of the Annual Statement of Assurance. The Federal Managers' Financial Integrity Act of 1982 requires that each Federal agency annually submit a self-assessment of internal control weaknesses. Section IV of the submission deals specifically with weaknesses in financial management systems.

Chief Financial Officers Act of 1990. The CFO Act requires the Office of Management and Budget to prepare a Five-Year Plan that addresses planned improvements to financial management. In response to this requirement, the OMB requires each Federal agency to submit a specific supporting Five-Year plan to improve its financial management. The CFO Act reporting requirements for the Five-Year Plan are similar to the reporting requirements of the 1998 Authorization Act, as discussed below.

Federal Financial Management Improvement Act of 1996. The Federal Financial Management Improvement Act of 1996 requires the head of each Federal agency to prepare a Remediation Plan if the agency's financial management systems do not comply substantially with Federal accounting standards, Federal requirements for financial management systems, and the U.S. Government Standard General Ledger at the transaction level. Appendix C discusses the details of the accounting standards and the requirements for Federal financial management systems. The Remediation Plan is to include the remedies, resources, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance.

National Defense Authorization Act of 1998. The Authorization Act requires the Secretary of Defense to submit to Congress a biennial strategic plan for the improvement of financial management within DoD. The Biennial Plan is to

address all aspects of financial management, including the finance systems, accounting systems, and data feeder systems that support financial functions of the DoD. The Authorization Act includes additional detailed requirements for a statement of objectives, performance measures, schedules, and the identification of individual and organizational responsibilities for Special Interest Items identified in the plan. See Appendix D for a description of the Special Interest Items.

FY 1998 is the first year in which DoD has attempted to consolidate all its financial management system reporting requirements into one document. The Biennial Plan will reduce the number of separate reports issued by DoD management to meet the requirements of the FMFIA, the CFO Act, the FFMIA, and the Authorization Act. We strongly support DoD efforts to consolidate multiple reporting requirements into the Biennial Plan. This will not be easy to implement, because the reporting requirements are diverse and require a great deal of detail. Because the Biennial Plan is intended to meet a variety of reporting requirements, including annual requirements, it will be necessary for DoD to update the Biennial Plan each year.

Preparation of the Biennial Plan

The Biennial Plan was prepared by the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) using data collected from the DFAS, the Military Departments, and the Defense agencies. The Military Departments and Defense agencies are responsible for implementing, modifying, and maintaining the feeder systems that support their missions. Source-level financial management data originate in the feeder systems and are fed into the finance and accounting systems. DFAS, under the authority of the Office of the USD(C), is responsible for implementing, modifying, and maintaining the finance and accounting systems. Sound financial management, reliable financial information, and auditable financial statements depend on reliable data processed collectively by the finance, accounting, and feeder systems. We reviewed two draft versions of the Biennial Plan and provided written comments to the Office of the USD(C).

The task undertaken by DoD, identifying financial management system deficiencies and ongoing and planned improvements to systems, is extremely complex and difficult because over 200 system initiatives are involved. The Biennial Plan was the first document issued by DoD that attempted to identify feeder systems and address accounting and internal control weaknesses in the feeder systems. Because the Biennial Plan covered all aspects of DoD financial management and attempts to identify deficiencies and corrective plans for all finance, accounting, and feeder systems, the Biennial Plan was published in two volumes. Volume I contained the DoD financial concept of operations detailing how DoD intends to manage its financial operations in the future and a transition plan that outlines the improvements required. Volume I also addressed Special Interest Items required by the Authorization Act. Volume II contained detailed supporting documentation on the DoD financial improvement initiatives described in volume I. Because DoD has a recurring requirement to publish the Biennial Plan, it should be viewed as a living document. DoD should update subsequent versions of the Biennial Plan to ensure that the status of progress toward achieving compliance with the CFO Act and the FFMIA is discussed.

Evaluation of the Biennial Plan

Although DoD has made a valid attempt to compile all necessary data on financial management systems, the Biennial Plan lacked a significant amount of required information. Our analysis of the Biennial Plan identified many areas where improvements could be made. The Biennial Plan would be improved if it fully

- identified specific deficiencies in DoD financial management systems;
- identified clear remedies for improving system deficiencies;
- identified the resources needed to bring all DoD financial management systems into compliance with statutory and regulatory requirements;
- identified intermediate target dates and an overall milestone for improvements to all DoD financial management systems;
- addressed the Special Interest Items required by the Authorization Act, and
- compiled a complete inventory of financial management systems.

Improvements to the overall organization of the Biennial Plan could also be made to supply DoD and Congress with a better understanding of the overall framework and roles of the financial management systems. We believe that the document can be measurably improved without adding to its already voluminous bulk of approximately 900 pages.

System Deficiencies

The Biennial Plan would be improved if it identified instances of noncompliance with accounting standards and regulations and internal control weaknesses for each system. The first step in correcting financial management system deficiencies is to identify the specific problems that need to be addressed for each financial management system.

Identification of Noncompliance With Standards and Regulations. Volume I of the Biennial Plan addressed some major problem areas facing DoD. However, the discussions of individual systems in volume II did not identify specific instances of noncompliance with accounting standards and regulations

For example, volume I identified and discussed the overall problems with inventory accounting. These were:

- proper valuation of inventory,
- proper classifications of inventory,
- the point when operating materials and supplies should be expensed, and
- the categorization of ammunition and munitions.

However, volume II did not identify the specific deficiencies for each system that supports inventory accounting. For example, specific deficiencies in the U.S. Army Commodity Command Standard System were not identified. The U.S. Army Commodity Command Standard System processed approximately \$3.4 billion in reimbursable issues for FY 1997 and was the primary inventory system for the Army Materiel Support Command. The information in volume II on the U.S. Army Commodity Command Standard System stated that the system was noncompliant with regulations but did not identify the relevant accounting standards or other regulations that were not being met. Further, the Biennial Plan did not state why each system was unable to meet accounting standards and regulations. Similarly vague problem definitions were included for most of the systems discussed in volume II. Additional clarity would allow reviewers to check if system assessments have taken the latest changes in accounting standards and regulations into consideration.

Identification of Internal Control Weaknesses. The Biennial Plan should better identify specific internal control weaknesses for each financial management system. Internal controls are a broad category and weaknesses may be found in distinct areas such as financial reporting controls, budget controls, compliance controls, and operation controls. Internal control weaknesses may be general, such as password controls over system access, or may be specific to a system, such as the inability to properly value inventory or calculate depreciation. Volume I of the Biennial Plan discussed internal control weaknesses only in general terms. For most systems included in volume II, the Biennial Plan stated only that the individual systems had internal control weaknesses and that the overall objective was to improve internal controls. The Biennial Plan did not identify the specific internal control weaknesses attributable to each system or explain why these weaknesses existed.

Addressing Specific Financial Management Systems. The Biennial Plan would be improved if it identified the specific deficiencies for each financial management system. The Biennial Plan is intended to serve as the overall DoD plan to correct financial management systems and meet the reporting requirements of multiple statutes. Because the Biennial Plan includes information on over 200 system initiatives, it would be infeasible to include volumes of data for each system. However, for the Biennial Plan to fully respond to requirements, it should identify each system's major deficiencies in meeting accounting standards and internal control requirements. For example, the data reported for each system would be more useful if it specified deficiencies at the level of detail shown in our example at Table 2. For this example, we used the Integrated Facilities System, which is used to report property, plant, and equipment (PP&E) for the Army Working Capital Fund.

Table 2. Specific Deficiencies in Integrated Facilities System	
System Deficiency ¹	Source of Requirement
Cannot provide audit trails to reconcile accounting data with supporting property records.	Joint Financial Management Improvement Program Core Financial Management System Requirements.
Cannot accurately identify and track cost of real property.	Statements of Federal Financial Accounting Standards No. 6 and No. 8.
Cannot properly capitalize buildings and improvements to assets.	Statement of Federal Financial Accounting Standards No. 6.
Cannot depreciate real property.	Statement of Federal Financial Accounting Standards No. 6.

The Biennial Plan did not clearly identify such system deficiencies and did not provide specific plans or milestones for improvement

FFMIA Requirements

The Biennial Plan would be more useful and would better respond to legislative requirements if it identified the remedies, resources, and intermediate target dates for correcting deficiencies in the financial management systems, as required by FFMIA. These types of information are also required to fully respond to the requirements of the Authorization Act.

Identification of Remedies. Because specific deficiencies were not identified, the Biennial Plan also did not specify the remedies to correct system deficiencies. The Biennial Plan did not include specific remedies for the Integrated Facilities System or for areas such as inventory, PP&E, or Government property in the possession of contractors. In addition, the Biennial Plan did not identify some remedies because of inconsistent reporting on the status of compliance of some systems.

Remedies for Correcting Inventory Accounting. Volume I identified many financial management areas that were deficient, but discussed these areas only in general terms and did not provide specific remedies for correcting the problems. For example, volume I stated that the DoD was unable to properly

¹ Additional system deficiencies may exist that we did not identify or include in this example.

value inventory in accordance with standards. However, volumes I and II did not specifically state how DoD intends to correct this problem. Although volume I discussed some initiatives to improve inventory management and accounting, none of these initiatives addressed inventory valuation corrections to the financial management systems.

Corrective Actions for PP&E. The Biennial Plan did not provide a complete plan to correct problems with accounting and reporting of PP&E. The Biennial Plan provided examples of some of the problem areas affecting the proper reporting of PP&E. These are:

- Government property in the possession of contractors,
- unit and installation property,
- wholesale assets, and
- equipment awaiting repair.

The Biennial Plan stated that to make improvements in these problem areas, the DoD has selected and is deploying a DoD-wide integrated property system, the Defense Property Accountability System (DPAS). However, audit reports issued during the past 3 years by the Inspector General, DoD, and the General Accounting Office have identified significant problems with DPAS that prevent it from being a full solution to the PP&E problem. See Table 3 for the list of problems with DPAS.

Table 3. Problems With the Defense Property Accountability System

- DPAS would only account for approximately 25 percent of PP&E. The Biennial Plan did not identify what system(s) or other corrective actions need to be completed to account for the other 75 percent of PP&E. Because PP&E is 58 percent of all DoD assets, this area is crucial for DoD to achieve compliance with the CFO Act and the FEMIA.
- DoD has not developed a concept of operations, which is an essential part of the strategic planning process that defines the roles, responsibilities, and relationships among DoD entities, including the identification of needed manual and automated interfaces and controls.
- DoD has not developed a clearly defined implementation plan for DPAS.
- Questions remain about the ability of DPAS to produce transactions that adequately update the general ledger and meet all current and pending Federal accounting standards and DoD financial management regulations.
- Confusion exists among the project offices regarding interfaces to DPAS to meet property accounting requirements.
- Some Military Departments have not accepted full use of DPAS.

The Biennial Plan would be more useful if it provided details on how DPAS will correct DoD PP&E reporting problems, the role of supplementary or alternative systems, and how to address concerns identified in audits.

Government Property in the Possession of Contractors. Reliance on DPAS to solve the reporting problems of Government property in the possession of contractors would be inconsistent with actions planned in the DoD Implementation Strategy. Currently, DoD has approximately \$92 billion of Government property in the possession of contractors that must be reported on the DoD entity and agency-wide financial statements. The Biennial Plan identified DPAS as the solution to correct the reporting problems of PP&E, including Government property in the possession of contractors. However, the Implementation Strategy identified business process changes by DoD and the contractors as proposed corrective actions, and did not state that DPAS would have any impact on Government property in the possession of contractors. The Biennial Plan should be modified to be consistent with other corrective plans prepared by DoD.

Inconsistencies in Reporting Compliance. The Biennial Plan contained inconsistent data on system compliance. Volume II of the Biennial Plan stated that the Standard Accounting and Reporting System, the migratory accounting system for the Navy General Fund, satisfied the statutory requirements of the CFO Act. However, the Biennial plan also stated that departures from accounting standards resulted in the inability of the Standard Accounting and Reporting System to provide uniform financial data that were complete, reliable, consistent, and timely. Because the Standard Accounting and Reporting System could not ensure that the financial data were complete, reliable, consistent, and timely, it was not compliant with the CFO Act. Remedies to correct deficiencies in the Standard Accounting and Reporting System were not included in the Biennial Plan because it was incorrectly reported as compliant.

Identification of Resources. The Biennial Plan did not provide all the resources necessary to bring all DoD financial management systems into compliance with statutory and regulatory requirements. The Biennial Plan provided an estimated \$5.4 billion to be invested in many of the finance and accounting systems for FYs 1998 through 2005, but did not provide the estimated costs of correcting most deficiencies in feeder systems or of integrating the financial management systems. In addition, the Biennial Plan reported that over \$325 million would be required after FY 2003, the date when compliant finance and accounting systems are to be in place.

DFAS budgets for its core systems by project initiatives, which detail the areas of noncompliance. The initiatives include mandatory changes, accounting requirements, data conversion, and enhancements. DFAS also tracks its funding and expenditures to parallel the budget requirements. In contrast, the Military Departments do not identify specific funding requirements for areas of noncompliance, although they recognize deficiencies in complying with laws and regulations. The feeder systems represented 83 of the 192 total DoD financial management systems reported in the Biennial Plan; however, in most cases, the areas of noncompliance were not specifically identified for the feeder systems.

The Biennial Plan acknowledged that before DoD can produce financial statements that are auditable to the source, DoD needs to modify feeder systems to record, maintain, and manage financial data in accordance with requirements. The Biennial Plan was incomplete without cost estimates for correcting the feeder systems and properly integrating the financial management systems.

Intermediate Target Dates and an Overall Milestone. The Biennial Plan did not include adequate intermediate target dates for correction of system deficiencies. In addition, the Biennial Plan did not provide a reasonable overall milestone for correcting all system deficiencies and full integration of the financial management systems. Intermediate target dates are necessary to measure the progress of achieving compliance as system changes are completed and so that the IG, DoD, can provide meaningful assessments to Congress.

Intermediate Target Dates for Individual Systems. The Biennial Plan did not include adequate intermediate target dates or milestones for improvements for all DoD financial management systems. Table 4 gives examples of systems that did not have intermediate target dates.

Table 4. Examples of Systems Without Intermediate Target Dates	
<ul style="list-style-type: none"> • • • • 	The majority of milestones identified for the Defense Joint Accounting System initiative are not measurable until after December 2000.
	The milestones for the Defense Business Management System showed only that the system would be compliant with all key accounting requirements by October 2001.
	No milestones were identified for improvements to the Army Procurement Automated Data and Document System and several Air Force systems, such as the Acquisition and Due-in System and the Aerospace Vehicle Resource System.
	The Biennial Plan identified a September 2005 milestone for improvements to the Army Standard Installation and Division Personnel Systems, but provided no intermediate target dates before 2005.

In many cases in which intermediate target dates were provided, the target dates were not tied to improving system deficiencies. For example, the discussion of the Air Force Automated Civil Engineer System included program-type milestones. However, none of the milestones stated when noncompliance with accounting standards, internal control weaknesses, and data inaccuracies would be improved.

In addition, the Biennial Plan did not provide intermediate target dates and an overall milestone for substantial compliance with the FFMIA and full compliance with the CFO Act. The "Remediation Plan Analysis" of the Biennial Plan identified target dates only for the following initiatives:

- activation of DFAS,
- establishment of Y2K projects,

-
- identification of standard data elements,
 - initial availability of the Global Edit Table,
 - draft publication of the Budget Accounting Classification Code,
 - completion of the consolidated operation locations, and
 - completion of finance and accounting systems reductions.

Although important, these initiatives alone will not bring the DoD financial management systems into full compliance. The Biennial Plan should identify target dates consistent with meeting accounting standards and regulatory requirements and should establish intermediate target dates for each critical system.

Overall Milestone to Correct All Systems. The Biennial Plan did not identify one overall milestone to correct all system deficiencies and fully integrate the financial management systems. The Biennial Plan stated that compliant finance and accounting systems are expected to be in place by FY 2003. However, the Biennial Plan did not provide a specific date goal for correction of all feeder system deficiencies. Because the feeder systems play a crucial role in DoD financial management, the Biennial Plan is incomplete without intermediate system level target dates and an estimated completion date for correction of all feeder system deficiencies. The FY 2003 milestone date cited in the Biennial Plan may be misleading to those not familiar with the complexity of the DoD financial management system structure and the role of feeder systems. We identified feeder systems where intermediate target dates extended beyond the FY 2003 milestone. For example, the Army Standard Installation and Division Personnel System has a September 2005 milestone for improvements. The Biennial Plan should clarify when both the accounting systems and the nonfinancial feeder systems will be compliant. We must assume that the date will be later than FY 2003.

Inspector General, DoD, Reporting Requirements. The Biennial Plan's lack of intermediate target dates will affect the Inspector General, DoD, reports to Congress. The FFMIA requires the Inspector General, DoD, to report every 6 months on DoD progress in meeting intermediate target dates to correct system deficiencies. Until the Biennial Plan includes good metrics for determining the status of systems, it will be difficult to make meaningful assessments.

Authorization Act Requirements

The Biennial Plan was not fully responsive to the requirements of the Authorization Act, which required that the plan address the status of DoD financial management and changes needed to improve financial management. The Authorization Act specifically required that the Biennial Plan address all aspects of DoD financial management. We identified two significant areas of DoD financial management, audit trails and intragovernmental transactions, that were not adequately discussed in the Biennial Plan.

The Authorization Act also required that the first Biennial Plan specifically address 12 areas. The Biennial Plan referred to these 12 areas as Special Interest Items. Six of the Special Interest Items were directly related to DoD financial

management systems, and six of the Special Interest Items addressed other financial management issues. For each of the Special Interest Items, the Authorization Act required that the Biennial Plan identify statements of objectives, performance measures, schedules, and individual and organizational responsibilities. See Appendix D for a complete list of the Special Interest Items. The Biennial Plan would be improved by providing additional information for each of the Special Interest Items.

Audit Trails. The discussion of audit trails in the Biennial Plan should be improved. Each year, our reviews of the financial statements identify the lack of adequate audit trails for financial information and the practice of unsupported adjustments as primary reasons for our disclaimers of opinion. For example, in IG, DoD, Report No. 98-161, "Internal Controls and Compliance With Laws and Regulations for the DoD Consolidated Financial Statements for FY 1997," June 22, 1998, we stated that the DoD accounting systems used to consolidate data did not always have audit trails for verifying the \$294.8 billion of DoD expenses reported in FY 1997.

Translating a program event to a financial transaction is the basis for adequate audit trails. The Biennial Plan would be improved by including a meaningful discussion on why an audit trail may be lost during these processes and the resulting occurrence of unsupported adjustments. We believe that faulty translation of program and financial events is the primary cause of the lack of audit trails and for unsupported adjustments.

Intragovernmental Transactions. A more detailed discussion of intragovernmental transactions also would improve the Biennial Plan. In previous audits, we have identified intragovernmental transactions as a financial management problem area. For example, in IG, DoD, Report No. 98-161, we stated that because of inadequate accounting systems, we were unable to substantiate \$230.6 billion of eliminating entries.

Generally, DoD was unable to properly identify amounts that should be eliminated during consolidation because transaction coding processes did not consistently and reliably identify intragovernmental amounts. In addition, coding structures were inadequate to segregate intragovernmental amounts for elimination by each reporting entity. The Biennial Plan was not particularly informative on those problems and did not discuss whether initiatives such as the Budget Accounting Classification Code will improve the DoD ability to properly eliminate intragovernmental amounts during consolidation.

System-Related Special Interest Items. Six of the Authorization Act Special Interest Items directly addressed DoD financial management systems. We discuss these Special Interest Items below.

Special Interest Items No. 1, No. 5, No. 6, and No. 7, Integration and Elimination of Systems. Volume I of the Biennial Plan included a general discussion of system integration and referred the reader to volume II for specific details such as statements of objectives, performance measures, schedules, and individual and organizational responsibilities. The Biennial Plan did not provide estimates of the actual costs of fully integrating feeder systems into the core accounting systems. The Biennial Plan did not provide a clear discussion of specific objectives, performance measures, schedules, or responsibilities for

systems integration. Further, the Biennial Plan did not identify the feeder systems that must be integrated into each core system. For example, the Biennial Plan generally discussed the integration of feeder systems into the Defense Joint Accounting System and the Army Procurement Automated Data and Document System; however, the discussions of these systems did not provide clearly stated objectives, performance measures, schedules, and definitions of responsibilities. The Biennial Plan included information on the elimination of finance and accounting systems; however, specific objectives, performance measures, schedules, and responsibilities for the elimination of unneeded feeder systems were not provided.

Special Interest Item No. 2, Data Accuracy Problems. Volume I of the Biennial Plan included a general discussion of problems with data accuracy and introduced several ongoing DoD initiatives to improve data accuracy. Volume I referred the reader to volume II for specific details such as statements of objectives, performance measures, schedules, and individual and organizational responsibilities. Because the problem definitions for each system in volume II were vague, it was impossible to determine which data accuracy problems were related to each system. Because data accuracy problems were not identified for each system, the specific objectives, performance measures, schedules, and responsibilities related to data accuracy problems also were not provided. For example, in volume II, the discussions of the Defense Property Accounting System, the Materiel Financial Control System, and the Mechanization of Contract Administration Services system stated that the systems had data accuracy problems that needed to be corrected. However, the Biennial Plan did not explain why these systems provided inaccurate data. In addition, the discussions of these systems did not include clearly stated objectives, performance measures, schedules, and definitions of responsibilities.

Special Interest Item No. 3, Internal Control Weaknesses. Volume I of the Biennial Plan included a general discussion of internal control weaknesses in DoD and referred the reader to volume II for specific details such as statements of objectives, performance measures, schedules, and individual and organizational responsibilities for each system. Because the problem definitions for each system within volume II were vague, it was impossible to determine which internal control weaknesses were related to each system. Further, the specific objectives, performance measures, schedules, and responsibilities for internal control weaknesses were not provided for each system. Many of the systems discussed in the Biennial Plan, including the Navy Defense Industrial Financial Management System, were identified as having internal control weaknesses. However, the plan did not provide details of the types of internal control weaknesses that existed in each system. Internal control weaknesses may be found in financial reporting controls, budget controls, compliance controls, and operations controls. For example, in previous audits, we identified the following internal control weaknesses in DoD systems:

- The Defense Industrial Financial Management System did not provide adequate or complete audit trails to support the general ledgers, as required by the Joint Financial Management Improvement Program, Core Financial Management System Requirements

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- System security for the Air Force Equipment, Inventory, Multiple Status, Utilization Reporting Subsystem was inadequate because of a lack of accreditation, contingency planning, and inventory documentation, as required by the Joint Financial Management System Requirements Framework for Federal Financial Management Systems.

These internal control weaknesses were not properly identified in the Biennial Plan. Without identifying specific internal control weaknesses in financial management systems, progress in correcting those weaknesses cannot be readily identified.

Other Special Interest Items. The remaining six Special Interest Items were not directly related to finance and accounting systems; however, they have been identified as major problem areas. Adequately addressing and identifying solutions for these six items is critical to improving DoD financial management. These Special Interest Items addressed a wide variety of topics:

- Special Interest Item No. 4, Problem Disbursements
- Special Interest Item No. 8, DFAS Organization and Performance Problems
- Special Interest Item No. 9, Costs and Benefits of Functional Reorganization
- Special Interest Item No. 10, Costs and Benefits of Contracting Out
- Special Interest Item No. 11, Financial Management Competency
- Special Interest Item No. 12, Other Changes in Management and Business Operations

The Biennial Plan generally discussed each of the Special Interest Items. However, the Biennial Plan did not provide the statements of objectives, performance measures, schedules, and responsibility definitions required by the Authorization Act. We believe the Biennial Plan could be improved by providing more useful metrics for these Special Interest Items. The Biennial Plan showed the status of problem disbursements as of August 1997; however, more current data were available and should have been included in the plan. In addition, for the Special Interest Items requiring a discussion of costs and benefits, the Biennial Plan discussed qualitative costs and benefits but did not provide quantitative data.

FMFIA System Inventory Requirement

The Biennial Plan did not include an accurate inventory of financial management systems, as required by FMFIA. Neither the Biennial Plan nor any other assessment gave a consistent estimate of the number of systems maintained by DoD. For example, the Biennial Plan contained contradictory information on the number of systems. Appendix B of volume 1 stated that there were 230 financial management systems, but also listed the systems as shown in Table 5.

Table 5. Number of DoD Financial Management Systems	
Accounting Systems	91
Finance Systems	18
Feeder Systems	83
Total	192

In IG, DoD, Report No. 98-161, we stated that DoD had not adequately identified the number of feeder systems or their internal control weaknesses in the Annual Statement of Assurance for FY 1997. Thus, the Biennial Plan was the first DoD attempt to address the feeder systems. Our review of the Biennial Plan indicated:

- the Air Force Equipment, Inventory, Multiple Status, Utilization Reporting Subsystem was not discussed in the Biennial Plan and was not included in the systems inventory;
- the Standard Army Procurement Appropriation System was discussed throughout the Biennial Plan, but was not included in the systems inventory; and
- the discussion of systems and the corresponding figures throughout the Transition Plan in the Biennial Plan were not consistent with the systems inventory in Appendix B of the Biennial Plan.

As a result, we question whether all DoD systems have been adequately identified, assessed, and discussed in the Biennial Plan. The DoD Annual Statement of Assurance for FY 1998 also lacked these details. The Office of the USD(C) personnel stated that, although the Biennial Plan included discussions of both critical and noncritical financial management systems, the systems inventory was intended to include only financial management systems that the Office of the USD(C) defined as critical. The Biennial Plan should not contain inconsistent representations of DoD financial management systems.

Organization of Biennial Plan

The organization of the voluminous Biennial Plan needs improvement. The Biennial Plan did not identify how each system fit into the DoD financial reporting structure. For example, where the Biennial Plan stated that a system belonged to the Army, the plan did not identify which segments of the Army were supported by the system. The Biennial Plan did not adequately identify the line items that the feeder system supported and did not identify the types of information that the system supplied to DoD managers. The Biennial Plan grouped many of the Navy feeder systems by program initiative and did not individually discuss each system's deficiencies, proposed improvements, and milestones. In addition, the core initiatives were not reported consistently. For example, the Defense Industrial Financial Management System was reported in the Biennial Plan under 10 separate system-level initiatives, although it is a single system. In contrast, the Standard Accounting and Reporting System was reported

under a single system-level initiative. The Biennial Plan could be improved by providing a better explanation of the overall framework of financial management systems and identifying the role of each system.

Collection of Data for the Biennial Plan

The preparation of the Biennial Plan, by the Under Secretary of Defense (Comptroller) and DFAS was difficult, because they lacked visibility into the status of feeder systems belonging to other DoD components.

Requirements for System Reviews. Enactment of the CFO Act and the FMFIA led to the issuance of OMB Circular No. A-127, "Financial Management Systems," as revised, July 23, 1993. OMB Circular No. A-127 required each Federal agency to ensure that appropriate reviews were conducted and improvements made to financial management systems. The Circular defines financial management systems as "financial systems and the financial portion of mixed systems necessary to support financial management." DFAS, under the authority of the Office of the USD(C), is responsible for the finance and accounting systems. The Military Departments and Defense agencies are responsible for the feeder systems. Thus, as early as July 1993, the DFAS and the Military Departments should have begun reviewing and collecting data on all DoD financial management systems with respect to internal control weaknesses and compliance with accounting standards and system requirements.

Each year, the accounting system managers prepare system reviews as part of their reporting requirements under OMB Circular No. A-127 and DoD Regulation 7000.14-R, the "DoD Financial Management Regulation." To date, the "DoD Financial Management Regulation" requires DoD system managers to review only accounting systems, not feeder systems. Feeder system managers were not required to and did not review their systems against financial management requirements. Thus, DoD had not adequately reviewed its financial management systems against accounting standards and systems requirements before preparing the Biennial Plan. DoD is still updating the "DoD Financial Management Regulation" to require that system reviews be conducted for all finance, accounting, and feeder systems

Use of Data Call. Because the necessary data were not available, the Office of the USD(C) used a data call to attempt to collect information to prepare the Biennial Plan. The Office of the USD(C) used a questionnaire to request data on DoD financial management systems from DFAS and the Military Departments. The questionnaire did not request the identification of internal control weaknesses and instances of noncompliance with accounting standards and requirements for each system. In addition, the responses from DFAS and the Military Departments did not contain appropriate data for the Biennial Plan.

The fact that it was necessary to use a questionnaire to collect data on DoD financial management systems demonstrated that DoD had not conducted system reviews as required by OMB Circular No. A-127. If the overall systems improvement effort were being actively managed on an integrated basis, frequent system status data updates and perhaps real time data would be available to senior

management on a routine basis. The lack of a meaningful role for the other principal staff assistants of the Office of the Secretary of Defense, especially the Under Secretary of Defense for Acquisition and Technology (USD[A&T]), in compiling the first Biennial Plan stands in sharp contrast with the now well integrated process that the Department has developed to manage and report on the Year 2000 conversion effort, which involves the same systems, as well as many others.

Adequacy of Questionnaire. To identify the system deficiencies that each initiative will fix, the questionnaire briefly listed general deficiencies and requested that the system manager select the appropriate responses:

- implement Year 2000 compliant system,
- become compliant with regulations,
- eliminate duplication of systems,
- correct data inaccuracy,
- integrate feeder systems, and
- improve internal controls.

The questionnaire did not request other data on system deficiencies. In addition, the questionnaire asked system managers for information on resource requirements, milestones, and quantitative and qualitative benefits. However, the questionnaire did not request that the milestones be specifically tied to remedying system deficiencies.

Adequacy of Responses to Questionnaire. The responses from the system managers did not contain the necessary data to prepare a comprehensive improvement plan that met statutory reporting requirements. The Office of the USD(C) questionnaire did not require that information be provided for each financial management system. Initially, the Navy submitted data for each of its systems. However, the Office of the USD(C) determined that the Navy submissions were questionable and requested that the Navy resubmit more valid data. Consequently, the Navy grouped various systems into program initiatives and reported the information by program initiative, not by individual system, in its final submission. For example, the Navy grouped all inventory systems into one program initiative and submitted a single questionnaire that identified only the systems that support the inventory business area. The Navy did not identify the specific deficiencies, internal control weaknesses, corrective plans, milestones, or funds needed to improve each inventory system.

In addition, the systems managers did not provide the Office of the USD(C) with adequate information on financial management problems and initiatives to remedy those problems. System managers were most capable of assessing their systems and documenting and sharing their assessments with other DoD managers to effectively plan for system improvements. We reviewed data provided by system managers and determined that the data did not adequately identify system problems and initiatives to improve those problems.

Coordination Between DoD Communities. Since FY 1991, DFAS had initiatives under way to eliminate unneeded accounting systems and correct accounting system deficiencies; these initiatives did not include reviewing or improving the feeder systems. Because most DoD financial information is supplied by non-financial systems, little progress in meeting CFO requirements is possible without the financial and other functional communities collectively working toward financial management system compliance.

No integrated process or formal agreement is in place to ensure that the Office of the USD(C) and DFAS coordinate with other functional communities on improving financial management systems. This poses risks in terms of incompatible actions or misunderstandings of what system modifications are needed in this era of continually evolving accounting standards. The Office of the USD(C) coordinated the draft Biennial Plan within DoD and collected many comments, which they will incorporate in future versions of the Biennial Plan. However, like the collection of information on system compliance, coordination among the DoD communities with respect to system improvement initiatives should be an ongoing, integrated process, not a one-time effort to write the Biennial Plan.

When a similar need for coordination arose in DoD with respect to Year 2000 conversion efforts, DoD used Memorandums of Agreement to ensure cooperation between different communities whose systems interface. We believe that Memorandums of Agreement between the Office of the USD(C), DFAS, and feeder system owners would greatly improve the coordination between the financial and other functional communities in improving the financial management systems. We will also work with appropriate managers to consider whether other Year 2000 conversion lessons learned, such as the utility of a central data base for system status reports and defined system phases with specified exit criteria, would be applicable.

Summary of Data Collection Efforts. DFAS has taken an initial step to coordinate with feeder system owners by preparing "A Guide to Federal Requirements for Financial Management Systems." This guide compiles the financial management system requirements for all finance, accounting, and feeder systems. The guide is available to all finance, accounting, and feeder system managers for comparing the current capabilities of systems with financial management system requirements.

We support the concept that the DoD Components should assess their finance, accounting, and feeder systems against requirements outlined in "A Guide to Federal Requirements for Financial Management Systems" on an ongoing basis and should use information from these reviews to improve future versions of the Biennial Plan.

Other Matters of Interest

The Biennial Plan discussed several external issues that DoD believes are an impediment to producing auditable financial statements. These items included.

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- burdensome reporting requirements,
 - new and unproven Governmental accounting standards,
 - the inclusion of information for non-DoD reporting entities, and
 - unresolved audit issues.

We objected to these comments several times in writing when we reviewed draft versions of the Biennial Plan. Our objections were ignored with respect to these four issues. We do not believe that an improvement plan is an appropriate forum for a discussion of accounting and reporting issues, especially when the discussion is one sided and unrelated to any planned actions. Personnel in the Office of the USD(C) maintained that these external factors were impediments to DoD financial accounting and reporting. See Appendix E for a more detailed discussion of these external factors.

Conclusion

The initial Biennial Plan was a valid attempt to comply with a difficult reporting requirement. The next version of the Biennial Plan would be greatly improved if it:

- identified specific deficiencies in DoD financial management systems,
- identified clear remedies for improving system deficiencies;
- identified the resources needed to bring all DoD financial management systems into compliance with statutory and regulatory requirements;
- identified intermediate target dates and an overall completion date goal for when all DoD financial management systems will be compliant;
- addressed the Special Interest Items required by the Authorization Act; and
- compiled a complete inventory of financial management systems

Until DoD identifies specific deficiencies for each critical financial management system, focuses improvement initiatives on remedying these deficiencies, and better coordinates these initiatives between all involved functional communities, DoD efforts to improve financial management and become substantially compliant with FFMIA and fully compliant with the CFO Act will be impaired. The requirement to compile the Biennial Plan can serve, in our view, as a catalyst for such actions.

We understand that the task undertaken by DoD to respond to multiple statutory reporting requirements in one comprehensive strategic plan is extremely complex and difficult. With the Biennial Plan, DoD is taking the initial steps toward preparing a comprehensive document that identifies financial management problem areas and plans for improvement. This task is a necessary step in providing Congress and DoD managers with adequate information to plan, fund, and measure improvements in financial management and reporting. Further, the

Biennial Plan is the first document issued by DoD that attempts to identify feeder systems and address accounting and internal control weaknesses in the feeder systems.

Recommendations, Management Comments, and Audit Response

The USD(C) provided comments on a draft of this report. These comments were coordinated with the Under Secretary of Defense (Acquisition and Technology), the Under Secretary of Defense (Personnel and Readiness), and the Assistant Secretaries of the Military Departments for Financial Management.

Management Comments. DoD management agreed in principle with the recommendations. However, DoD management stated that the Biennial Plan is a high-level strategic plan designed to meet legislative reporting requirements, to inform Congress and the President of actual and planned progress, and to guide DoD in further improving financial management. DoD management further stated that the level of detail we recommended is not suitable for the Biennial Plan. However on March 22, 1999, the Office of the USD(C) issued subsequent guidance for reporting the status of financial management systems in the second version of the Biennial Plan. This guidance implemented many of our recommendations and stated that the data collected will be integrated into the FY 1999 Biennial Plan.

1. We recommend that the Under Secretary of Defense (Acquisition and Technology), the Under Secretary of Defense (Comptroller), the Under Secretary of Defense (Personnel and Readiness), and the Secretaries of the Military Departments:

a. Evaluate all finance, accounting, and feeder systems against Federal financial management requirements and Federal accounting standards to identify specific system deficiencies.

b. Identify all internal control weaknesses for each finance, accounting, and feeder system.

c. Prepare a plan to correct specific system deficiencies.

Management Comments. DoD management partially concurred with Recommendations 1.a., 1.b., and 1.c. DoD management stated that critical finance and accounting systems have been evaluated, specific system deficiencies and internal control weaknesses have been identified, and plans have been developed to correct deficiencies in finance and accounting systems. DoD management further stated that some feeder systems have been evaluated. The DoD Components will be asked to complete the evaluations of the feeder systems and to develop plans to correct system deficiencies. The March 22, 1999, guidance issued by the Office of the USD(C) implemented these recommendations.

Audit Response. The USD(C) comments and subsequent actions were generally responsive to Recommendations 1.a., 1.b., and 1.c.

Added and Renumbered Recommendations. As a result of additional audit work, we have added Recommendations 1.d. and 1.e. Recommendations 1.d. and 1.e. in the draft report have been renumbered as Recommendations 1.f. and 1.g.

d. Complete cost analyses for each finance, accounting, and feeder system to determine the estimated costs to correct all system deficiencies.

e. Include the results of the cost analysis in the second version of the Biennial Plan.

f. Program funds to correct specific system deficiencies.

Management Comments. DoD management partially concurred with Recommendation 1.f. to program funds to correct specific system deficiencies. DoD management stated that funds have been programmed to correct the finance and accounting systems and some feeder systems. DoD management further stated that the funds for correcting feeder systems cannot always be separately identified from the funds needed to correct other program functional weaknesses.

Audit Response. DoD management comments were partially responsive. The Department has taken action to program some funds for improvements of DFAS systems. However, the information in the Biennial Plan does not directly associate the programmed funding with a specific system deficiency or identify which system improvements remain unfunded. Also, the total cost to correct the DoD feeder system deficiencies remains unknown. The Biennial Plan provided information on funds that would be invested in many finance and accounting systems, but did not give the estimated costs of correcting most deficiencies in feeder systems or integrating the finance, accounting, and feeder systems. DoD has acknowledged the critical role that feeder systems play in DoD financial management. The Biennial Plan is incomplete without the required cost estimates of correcting the feeder systems and properly integrating the financial management systems. The guidance issued on March 22, 1999, did not address the programming of funds to correct the financial management systems.

g. Prepare formal Memorandums of Agreement between the feeder system owners and the Defense Finance and Accounting Service that provide an overall coordination mechanism to correct all deficiencies and fully integrate all finance, accounting, and feeder systems. At a minimum, the memorandums should identify the interfacing systems, type of interface, data transmitted, systems deficiencies, strategy, milestones, and parties responsible for correcting all system deficiencies.

Management Comments. DoD management partially concurred with Recommendation 1.g. to prepare formal Memorandums of Agreement between the owners of the feeder systems and DFAS. DoD management stated that the DoD Components will be asked to establish Memorandums of Agreement with DFAS after the feeder systems have been evaluated, system deficiencies identified, and corrective actions determined. The March 22, 1999, guidance required Memorandums of Agreement to be established between feeder system owners and DFAS.

Audit Response. Comments from DoD management were initially nonresponsive to this recommendation. The March 22, 1999, guidance was responsive to Recommendation 1.g.

2. We recommend that the Under Secretary of Defense (Comptroller) update the Biennial Plan to:

a. Identify specific instances of noncompliance with accounting standards and regulations and actions to correct those noncompliances for each finance, accounting, and feeder system.

b. Identify the specific internal control weaknesses and actions to correct those weaknesses for each finance, accounting, and feeder system.

c. Identify the resources needed to correct and fully integrate the finance, accounting, and feeder systems.

d. Identify measurable intermediate target dates to correct each finance, accounting, and feeder system and overall milestones to correct all finance, accounting, and feeder systems.

Management Comments. DoD management partially concurred with Recommendations 2.a., 2.b., 2.c., and 2.d. DoD management stated that the Biennial Plan identified instances of material noncompliance with accounting standards and regulations, actions to correct the deficiencies, instances of material internal control weaknesses, the resources needed to correct the finance and accounting systems, and intermediate target dates for the finance and accounting systems. DoD management stated that this information had also been identified for some feeder systems. DoD management stated that the Biennial Plan is a high-level strategic plan that should not include detailed information on each finance, accounting, and feeder system.

Audit Response. The management comments and subsequent actions were generally responsive to Recommendations 2.a., 2.b., 2.c., and 2.d.

e. Define statements of objectives, performance measures, and schedules that address each system's deficiencies, and designate individual and organizational responsibilities for each system for the Special Interest Items addressing the integration of systems and the correction of data accuracy problems and internal control weaknesses.

Management Comments. DoD management partially concurred with Recommendation 2.e. and stated that the Biennial Plan defined the statements of objectives, performance measures, and schedules for the DFAS finance and accounting systems and several critical feeder systems. DoD management also stated that the Biennial Plan identified individual and organizational responsibilities.

Audit Response. The DoD management comments and subsequent actions were generally responsive to Recommendation 2.e.

f. Monitor preparation of the systems inventory by DFAS and the Military Departments and ensure that the inventory includes all critical financial management systems and that any differences between the systems inventory and the Biennial Plan discussions are explained.

Management Comments. DoD management partially concurred with Recommendation 2.f. and stated that the preparation of the systems inventory will continue to be monitored. DoD management stated that additional systems were discussed in the Biennial Plan for informational purposes only, and that there were no differences between the systems inventory and the Biennial Plan that required explanation.

Audit Response. The management comments and subsequent actions were generally responsive to Recommendation 2.f. The guidance requires that the DoD Components update the systems inventory. We disagree with the USD(C) statement that there were no differences between the systems inventory and the Biennial Plan that required explanation. As stated in our report, neither the Biennial Plan nor any other assessment gave a consistent estimate of the number of finance, accounting, and feeder systems maintained by DoD. Our report gave an example of a system that was not included in the Biennial Plan systems inventory and an example of a system that was discussed in the Biennial Plan but was not in the systems inventory. In addition, we identified several differences between the discussion of systems and the corresponding figures throughout the Transition Plan and the systems inventory.

g. Delete inappropriate content discussed under "Other Matters of Interest" in this report.

Management Comments. DoD management does not believe that the Biennial Plan contains inappropriate content. DoD management stated that congressional mandates and OMB guidelines require DoD to include impediments to achieving auditable financial statements.

Audit Response. DoD management comments were nonresponsive. The Biennial Plan contains inappropriate content that should be removed. The Biennial Plan identified burdensome reporting requirements as an impediment to producing auditable financial statements. These reporting requirements are in place to help DoD identify the corrective actions necessary to improve financial management processes and systems. These reporting requirements should be viewed as an aid, not an impediment. The Biennial Plan also stated that new and unproven Governmental accounting standards prevented DoD from achieving an unqualified opinion. As stated in our report, the basic principles behind the Governmental accounting standards have existed for many years, but have recently been applied to the Federal government. DoD has not fully recognized that the primary purpose of implementing these new accounting standards is to improve financial management throughout DoD, and that the audit opinions expressed on the financial statements are secondary. The language in the Biennial Plan leads to the conclusion that the accounting standards are at fault; however, the problem is that DoD has not yet succeeded in complying with Government accounting standards. Additional language on DoD reporting entities and other audit issues should also be removed from the Biennial Plan. It would be vastly more useful and consistent with the overall USD (Comptroller)

initiatives to discuss the impediments to clean audit opinions that have been identified jointly by the USD (Comptroller), GAO, OMB and the Inspector General, DoD, over the past several months.

Management Comments Required

Written comments and subsequent actions from DoD management were generally responsive to our recommendations. We added two recommendations after issuing the draft report and request that the Under Secretary of Defense (Comptroller) provide comments on Recommendations 1.d. and 1.e. We also request that the Under Secretary of Defense (Acquisition and Technology), the Under Secretary of Defense (Personnel and Readiness), and the Secretaries of the Military Departments provide comments on the final report by June 1, 1999.

Appendix A. Evaluation Process

Scope

Work Performed. We reviewed the DoD Biennial Plan to determine whether it was fully responsive to the reporting requirements of the FFMIA and the Authorization Act. Specifically, we reviewed the Biennial Plan to determine whether DoD had adequately identified financial management problems and the resources, remedies, and intermediate target dates necessary to provide Congress and DoD managers with adequate information to plan, fund, and monitor improvements in DoD financial management. This evaluation was conducted in support of our audit of the FY 1998 DoD Agency-wide Financial Statements

DoD-wide Corporate-Level Government Performance and Results Act (GPRA) Goals. In response to the GPRA, the Department of Defense has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objectives and goals:

Objective: Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals:

Objective: Reengineer DoD business practices and strengthen internal controls. **Goal:** Standardize, reduce, clarify, and reissue financial management policies (FM-4.1) and improve compliance with the FFMIA (FM-5.3).

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

We reviewed the financial management problems and initiatives to remedy those problems discussed in the Biennial Plan. We assessed the information in the Biennial Plan against the statutory requirements outlined by the Authorization Act, FFMIA, the CFO Act, and FFMIA. We assessed the information in the plan against information we had gathered during our financial statement audits from FY 1997 and prior years. We reviewed the questionnaire used by the Office of the USD(C) to request information from system managers. We reviewed the

information provided by system managers to the Office of the USD(C). We conducted interviews with staff members from the Office of the USD(C), DFAS, and the Military Departments.

We focused our review on:

- determining whether the Biennial Plan adequately discussed specific internal control weaknesses and instances of noncompliance with accounting standards and regulations for each DoD finance, accounting, and feeder system;
- determining whether the Biennial Plan adequately discussed specific procedural problems in financial management;
- determining whether the Biennial Plan adequately discussed the resources, remedies, and intermediate target dates necessary to provide Congress and DoD managers with adequate information to plan, fund, and monitor improvements in DoD financial management; and
- determining whether the Biennial Plan was fully responsive to statutory requirements.

Computer-Processed Data. We did not rely on computer-processed data to perform this evaluation.

Evaluation Period and Standards. We performed this evaluation during the period September through November 1998 in accordance with standards issued and implemented by the Inspector General, DoD.

Contacts During the Evaluation. We visited or contacted individuals and organizations within the DoD. Further details are available on request.

Appendix B. Summary of Prior Coverage

The IG, DoD, has issued eight audit reports that summarize deficiencies identified during audits of financial statements for previous years.

IG, DoD, Report No. 98-208, "Major Deficiencies Preventing Favorable Audit Opinions on the FY 1997 DoD Financial Statements," September 23, 1998.

IG, DoD, Report No. 98-161, "Internal Controls and Compliance With Laws and Regulations for the DoD Consolidated Financial Statements for FY 1997," June 22, 1998.

IG, DoD, Report No. 97-225, "Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements," September 30, 1997.

IG, DoD, Report No. 97-182, "Internal Controls and Compliance With Laws and Regulations for the DoD Consolidated Financial Statements for FY 1996," June 30, 1997.

IG, DoD, Report No. 97-026, "Major Deficiencies Preventing Auditors From Rendering Audit Opinions on FY 1995 DoD General Fund Financial Statements," November 19, 1996.

IG, DoD, Report No. 97-006, "Major Accounting and Management Control Deficiencies in the Defense Business Operations Fund in FY 1995," October 15, 1996.

IG, DoD, Report No. 95-301, "Major Deficiencies Preventing Auditors From Rendering Audit Opinions on DoD General Fund Financial Statements," August 29, 1995.

IG, DoD, Report No. 95-294, "Major Accounting Deficiencies in the Defense Business Operations Fund in FY 1994," August 18, 1995.

Appendix C. Accounting and System Requirements

Federal Accounting Standards

Federal agencies reporting under the Government Management Reform Act of 1994 are to follow eight Statements of Federal Financial Accounting Standards (SFFAS) agreed to by the Director, OMB, the Comptroller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office. Table C-1 lists the eight SFFAS and two Statements of Federal Financial Accounting Concepts

Table C-1. Statements of Federal Financial Accounting Standards and Concepts			
Number	Title	Status	Effective Date
Standard No. 1	Accounting for Selected Assets and Liabilities, March 30, 1993	Final	FY 1994
Standard No. 2	Accounting for Direct Loans and Loan Guarantees, August 23, 1993	Final	FY 1994
Standard No. 3	Accounting for Inventory and Related Property, October 27, 1993	Final	FY 1994
Standard No. 4	Managerial Cost Accounting Concepts and Standards for the Federal Government, July 31, 1995	Final	FY 1998
Standard No. 5	Accounting for Liabilities of the Federal Government, December 20, 1995	Final	FY 1997
Standard No. 6	Accounting for Property, Plant, and Equipment, November 30, 1995	Final	FY 1998
Standard No. 7	Accounting for Revenue and Other Financing Sources, May 10, 1996	Final	FY 1998
Standard No. 8	Supplementary Stewardship Reporting, June 11, 1996	Approved	
Concept No. 1	Objectives of Federal Financial Reporting, September 2, 1993	Final	
Concept No. 2	Entity and Display, April 20, 1995	Final	

These standards cover most transactions. However, agencies may engage in transactions that are not addressed by these standards. In that event, agencies shall view the following hierarchy as providing sources of generally accepted accounting principles for the Federal Government.

- standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of the Treasury, and published by OMB and the General Accounting Office;
- interpretations of the Statements of Federal Financial Accounting Standards (SFFAS) issued by OMB in accordance with the procedures outlined in OMB Circular No. A-134, "Financial Accounting Principles and Standards," May 20, 1993;
- requirements of OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996, as amended by "Technical Amendments to OMB No. 97-01," November 20, 1998, in effect for the period covered by the financial statements; and
- accounting principles published by other standard-setting bodies and other authoritative sources.

Federal System Requirements

Joint Financial Management Improvement Program Requirements. The Joint Financial Management Improvement Program (JFMIP) has published a series of financial management system requirement documents, the Federal Financial Management System Requirements. The JFMIP is a cooperative undertaking of the OMB, the Department of the Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices throughout the Government. Table C-2 lists all JFMIP Federal Financial Management System Requirements.

Table C-2. JFMIP Federal Financial Management System Requirements
Framework for Federal Financial Management Systems, January 1995
Core Financial Systems Requirements, January 1988, revised April 1994 and April 1995
Personnel/Payroll System Requirements, May 1990
Travel System Requirements, January 1991
Seized/Forfeited Asset System Requirements, March 1993
Direct Loan System Requirements, December 1993
Guaranteed Loan System Requirements, December 1993
Inventory System Requirements, June 1995
Managerial Cost Accounting System Requirements, February 1998

The "Core Financial System Requirements," September 1995, which are a part of the JFMIP Federal Financial Management System Requirements, establishes standard requirements for the modules of an agency's integrated financial management system. These requirements state that a financial management system must support the partnership between program and financial managers and assure the integrity of information for decisionmaking and measuring performance. This includes the ability to:

- collect accurate, timely, complete, reliable, and consistent information;
- provide for adequate reporting to agency management;
- support Government-wide and agency-level policy decisions;
- support the preparation and execution of agency budgets;
- facilitate the preparation of financial statements and other financial reports in accordance with Federal accounting and reporting standards;
- provide information to central agencies for budgeting, analysis, and Government-wide reporting, including consolidated financial statements, and
- provide a complete audit trail to facilitate audits.

Further, the requirements state that integrated financial management systems must be designed with effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data in the systems.

Financial Management Systems Evaluation. OMB Circular No. A-127 and the "DoD Financial Management Regulation" require DoD system managers and users to jointly perform and report annual system reviews of DoD accounting systems to assess compliance with statutory and regulatory accounting requirements, using guidance prepared by DFAS. These system reviews assess accounting system compliance with the DoD Key Accounting Requirements.

DFAS is responsible for maintaining and issuing guidance for conducting the system reviews. DFAS is also responsible for reviewing, analyzing, coordinating, and compiling the results of the system reviews. These system reviews are required for accounting systems; however, DoD guidance does not specifically require that the reviews be conducted on feeder systems. Feeder systems are covered under the FFMIA and OMB Circular No. A-127, and similar reviews should be conducted for feeder systems.

Appendix D. Special Interest Items Required in DoD Biennial Plan

In addition to requiring that the Biennial Plan address all aspects of financial management within DoD, the Authorization Act also required that the first Biennial Plan specifically address 12 areas. The Biennial Plan refers to these 12 areas as Special Interest Items. The Special Interest Items are as follows.

No. 1: A description of the costs and benefits of integrating the various finance and accounting systems of the DoD and reducing the total number of such systems, together with the Secretary's assessment of the feasibility of implementing such an integration.

No. 2: An identification of the problems with the accuracy of data included in the finance systems, accounting systems, and data feeder systems that support financial functions of the DoD systems, together with a description of the actions that the Secretary can take to address these problems and weaknesses.

No. 3: A description of the weaknesses in the internal controls of these systems, together with a description of the actions that the Secretary can take to address these problems and weaknesses.

No. 4: A description of actions that the Secretary can take to eliminate negative unliquidated obligations, unmatched disbursements, and in-transit disbursements and avoid such obligations and disbursements in the future.

No. 5: A description of the DoD efforts to consolidate and eliminate redundant or unneeded finance systems, and redundant or unneeded accounting systems.

No. 6: A description of efforts to consolidate or eliminate redundant personnel data systems, acquisition data systems, asset accounting systems, time and attendance systems, and other DoD data systems.

No. 7: A description of efforts to integrate the data feeder systems of the DoD with the finance and accounting systems of the DoD.

No. 8: A description of problems with the organization or performance of the Operating Locations and Service Centers of the DFAS, together with a description of the actions the Secretary can take to address those problems.

No. 9: A description of the costs and benefits of reorganizing the Operating Locations and Service Centers of the DFAS according to function, together with the Secretary's assessment of the feasibility of carrying out such a reorganization.

No. 10: A description of the costs and benefits of contracting for private-sector performance of specific functions currently performed by the DFAS, together with the Secretary's assessment of the feasibility of contracting for such performance.

No. 11: A description of actions that can be taken to ensure that each comptroller position (and comparable position) in the DoD, whether filled by a member of the Armed forces or a civilian employee, is held by a person who, by reason of education, technical competence, and experience, has the core competencies for financial management.

No. 12: A description of any other change in the financial management structure or revision of the financial processes and business practices that the Secretary considers necessary to improve financial management in DoD.

Appendix E. External Factors Discussed in Biennial Plan

The Biennial Plan discusses several external issues that DoD believes are an impediment to producing auditable financial statements. These items include:

- burdensome reporting requirements;
- new and unproven Governmental accounting standards;
- the inclusion of information for non-DoD reporting entities; and
- unresolved audit issues.

We objected to these comments several times in writing when we reviewed draft versions of the Biennial Plan. Our objections were ignored with respect to these four issues. We do not believe that an improvement plan is an appropriate forum for a discussion of accounting and reporting issues, nor is there support for several assertions made in the discussion. The Office of the USD(C) personnel maintained that these external factors were impediments to DoD financial accounting and reporting.

Reporting Requirements. Most reporting requirements identified as burdensome by the Biennial Plan are in place to aid DoD and the Federal Government in adequately identifying and planning improvements to financial management processes and systems. Also, requirements for adequate analysis and planning are keys to effectiveness and efficiency and should not be considered burdensome. The USD(C) has done an exemplary job of reducing some of the burden by consolidating the reporting requirements of the FMFIA, CFO, FFMIA, and Authorization Act into the Biennial Plan. Unless the DoD is prepared to propose specific legislative or regulatory changes to enable further streamlining, we see no merit in complaints about reporting burdens. The DoD legislative proposals for FY 2000 do not include such proposals.

In addition, the Biennial Plan debates the validity of burdensome requirements for responses to audit reports. The Inspector General Act of 1978 requires the Offices of the Inspector General to:

- conduct and supervise audits and investigations relating to the programs and operations of Federal entities;
- provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness and detect fraud and abuse; and
- provide a means for keeping the head of the establishment and the Congress fully informed about problems and deficiencies in the administration of such programs and operations and the necessity for and progress of corrective actions.

DoD Directive 7600 2, "Audit Policies," February 2, 1991, requires that the heads of the DoD Components provide prompt, responsive, and constructive management consideration and comments on draft findings and audit recommendations. When unresolved issues are cited in the audit report, management comments are essential in order to ensure prompt resolution of the matter, as required by DoD Directive 7650.3, "Followup on General Accounting Office, DoD Inspector General, and Internal Audit Reports," September 5, 1989. Management's consideration of and response to Inspector General audit findings and recommendations is an essential part of the audit process, and the need to ascertain the management position is not a debatable issue.

The number of audit reports requiring management responses is determined by the large number of DoD financial statement reporting entities designated by the DoD Chief Financial Officer, OMB audit requirements, and the large number of deficiencies found during audits.

Accounting Standards. The Biennial Plan states that new and unproven Governmental accounting standards prevent DoD from achieving an unqualified opinion on its financial statements. Although the application of accounting standards to the Federal Government is an evolving process, the actual accounting standards are well established. Federal accounting standards are based on similar practices from the public sector, which have been applied to the Government by knowledgeable professionals. The fundamental principles behind the Government and public sector standards have existed for many years.

The use of accounting standards and regulations should result in financial reports that include understandable, relevant, and reliable information about the financial position, activities, and results of operations of the U.S. Government and its components. In addition, accounting standards and regulations should foster improvements to accounting systems and internal controls that will help provide reasonable assurance to users that Government activities have been conducted economically, efficiently, effectively, and in compliance with applicable laws and regulations. Therefore, Federal financial accounting standards and regulations should be considered in establishing systems and maintaining day-to-day financial records as well as being applied to general-purpose financial reports of U.S. Government entities. Failure to comply with Federal accounting standards and regulations undermines DoD financial management and prevents DoD from achieving compliant systems and auditable financial statements. Further, we do not believe that rewriting accounting standards and regulations, instead of bringing DoD financial systems and business practices into compliance with existing standards and regulations, will help DoD improve financial management and achieve compliance with the CFO Act and FFMIA.

Reporting Entities. The Biennial Plan states that DoD believes it is inappropriate to include the assets, liabilities, and operating transactions of the Foreign Military Sales Trust Fund in the DoD Agency-wide financial statements. As previously stated, we do not believe that an improvement plan is an appropriate forum for debating accounting and reporting issues.

Audit Opinions. The Biennial Plan states that inconsistent application of audit procedures and unresolved audit issues resulted in a qualified audit opinion of the National Defense Stockpile Transaction Fund for FY 1996. However, the

qualified audit opinion was based primarily on inconsistent application of records retention procedures by the General Services Administration before 1988, and the fact that we were unable to compare FY 1996 financial statement balances to unauditable FY 1995 balances. Further, a disclaimer of opinion was subsequently provided for the National Defense Stockpile Transaction Fund for FY 1997 because we could not verify the inventory valuation or confirm the accounts receivable. The Biennial Plan is not the proper forum for questioning the basis of previous years' audit opinions.

The discussion of audit opinions in the Biennial Plan is misleading. Our objective in auditing the financial statements of a Government entity is to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with OMB Bulletin No. 97-01. The financial statement audit is focused primarily on assessing the validity of assertions that management makes in its financial statements. Based on the results of our audit, we express a judgmental opinion about the fairness of the overall financial statements. The audit opinion is based on the application of generally accepted auditing standards and Government auditing standards. The degree of validity of management's assertions is reflected in the audit opinion. Therefore, the audit opinion is an indicator of management's ability to properly manage public funds and assets, and an unfavorable audit opinion reflects less favorably upon management.

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition and Technology)
Deputy Under Secretary of Defense (Logistics)
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller) and Chief Financial Officer
Deputy Chief Financial Officer
Director, Accounting Policy
Deputy Comptroller (Program/Budget)
Under Secretary of Defense (Personnel and Readiness)
Under Secretary of Defense (Policy)
Assistant Secretary of Defense (Command, Control, Communications and Intelligence)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Administration and Management
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Director, Defense Security Cooperation Agency

Non-Defense Federal Organizations

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Chairman and Ranking Minority Member of Congressional Committees and Subcommittees

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations,
Committee on Government Reform

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAR 3 1999



MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

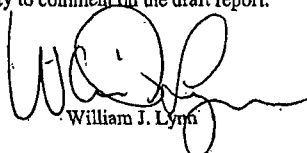
SUBJECT: Office of the Inspector General Department of Defense (IG, DoD) Assessment
of the DoD Biennial Financial Management Improvement Plan (Biennial Plan)
(Project No. 8FI-2024)

We appreciate your recognition that the Department made a valid attempt to compile and report all the necessary data on financial management systems in the Department's first Biennial Plan. The Department has, for many years, had ongoing efforts to modernize finance and accounting operations and plans to prepare a Financial Management Improvement Plan annually.

We agree in principle with the recommendations that financial management systems need to be evaluated and that the plan would be more comprehensive if it identified all of the deficiencies, remedies, resource requirements, and intermediate target dates necessary to bring DoD financial management systems into compliance. However, the Biennial Plan is a high level strategic plan designed to meet legislative reporting requirements, inform Congress and the President on actual and planned progress, and guide the Department to further improve financial management in the Department. Consequently, the level of detail desired by your office is not suitable for the plan. However, the DoD Components are expected to ensure adequate details are contained in subordinate plans maintained by individual program managers.

The Department has made great strides in improving its financial management operations. Evaluations have been conducted on the finance and accounting systems, and detailed plans have been developed with identified funding and milestones to transition to approximately 32 compliant migratory finance and accounting systems. The Department also is developing plans to identify deficiencies, corrective actions with milestones, and resource requirements for critical feeder systems. These critical feeder systems only recently were included in our financial management systems inventory and, consequently, were not included in the FY 1998 evaluation program. As it is an inefficient use of resources, the Department does not plan to evaluate and correct deficiencies in legacy finance, accounting, and feeder systems that will be phased out as part of the migration plan.

Attached are specific comments to each recommendation contained in the report. The Department appreciates the opportunity to comment on the draft report.


William J. Lynn

Attachment

**OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
DRAFT OF A PROPOSED EVALUATION REPORT
DATED DECEMBER 18, 1998
(PROJECT NO. 8FI-2024)**

**DEPARTMENT OF DEFENSE COMMENTS
TO STATEMENTS MADE IN THE
DRAFT PROPOSED EVALUATION REPORT**

1. RECOMMENDATION: The IG, DoD recommends that the Under Secretary of Defense (Acquisition and Technology), the Under Secretary of Defense (Comptroller), the Under Secretary of Defense (Personnel and Readiness), and the Secretaries of the Military Departments:

RECOMMENDATION 1a: Evaluate all finance, accounting, and feeder systems against Federal financial management requirements and Federal accounting standards to identify specific system deficiencies.

DoD COMMENTS: Partially concur. Finance and accounting systems have been evaluated against federal financial management requirements and federal accounting standards and specific system deficiencies have been identified. Finance and accounting systems are evaluated annually in accordance with guidelines published in the DoD Financial Management Regulation, Volume 1, Chapter 3, "Accounting Systems Conformance, Evaluation, and Reporting." Feeder systems were not added to the Financial Management Systems Inventory until late FY 1998 and, consequently, were not part of the review cycle for that year. However, the Department has evaluated some of the feeder systems against federal accounting standards and specific system deficiencies have been identified. This office will ask each DoD Component to develop plans in FY 1999 to evaluate its remaining critical feeder systems. There currently is no intent to evaluate legacy systems that will be replaced or discontinued.

RECOMMENDATION 1b: Identify all internal control weaknesses for each finance, accounting, and feeder system.

DoD COMMENTS: Partially concur. Critical finance and accounting systems have been evaluated and internal control weaknesses have been identified, where appropriate. Internal control weaknesses are identified when finance and accounting systems are evaluated annually in accordance with guidelines published in the DoD Financial Management Regulation, Volume 1, Chapter 3, "Accounting Systems Conformance, Evaluation, and Reporting." Feeder systems were not added to the Financial Management Systems Inventory until late FY 1998 and, consequently, were not part of the review cycle for that year. The Department has identified weaknesses for some of the feeder systems and will ask each DoD Component to continue to identify the weaknesses in FY 1999 for its remaining critical feeder systems. There currently is no intent to identify internal control weaknesses for legacy systems that will be replaced or discontinued.

Final Report
Reference

Renumber as
Recommendation
1.f

Renumber as
Recommendation
1.g

RECOMMENDATION 1c: Prepare a plan to correct specific system deficiencies.

DoD COMMENTS: Partially concur. Plans to correct specific system deficiencies in each of the Defense Finance and Accounting Service (DFAS) finance and accounting systems have been developed. These plans are part of each system manager's action plans that support the Financial Management Improvement Plan. The overall milestones are summarized and incorporated into the high-level strategic plan to correct major system deficiencies. The DoD Components will be asked to develop plans for the remaining critical feeder systems after the applicable systems have been evaluated and required corrective actions identified. Currently, there is no intent to correct specific deficiencies for legacy systems that will be replaced or discontinued.

RECOMMENDATION 1d: Program funds to correct specific system deficiencies.

DoD COMMENTS: Partially concur. Funds have been programmed to correct system deficiencies in the DFAS finance and accounting systems. The programmed funds can be found in the DFAS budget. The DoD Components advise that, in some cases, funds also have been programmed to fix applicable critical feeder systems. The amount needed to fix financial management related deficiencies in feeder systems, however, is not always separately identified. In a number of instances the correction of a funded program functional weakness also will correct a financial management related system deficiency; in other instances, the amount to fix a financial management related system deficiency is not a material program cost. There currently is no intent to program funds for legacy systems that will be replaced or discontinued.

RECOMMENDATION 1e: Prepare formal Memorandums of Agreement between the feeder system owners and the DFAS that provide an overall coordination mechanism to correct all deficiencies and fully integrate all finance, accounting, and feeder systems. At a minimum, the memorandums should identify the interfacing systems, type of interface, data transmitted, systems deficiencies, strategy, milestones, and parties responsible for correcting all system deficiencies.

DoD COMMENTS: Partially Concur. This office will ask the DoD Components to establish MOAs with the DFAS that will identify the interfacing systems and address the type of interface, data transmitted, systems deficiencies, strategy, milestones, and parties responsible for correcting system deficiencies. The MOAs will be requested to be developed after the feeder systems have been evaluated, system deficiencies identified, and corrective actions determined. There currently is no intent to develop MOAs for legacy systems that will be replaced or discontinued.

2. RECOMMENDATION: The IG, DoD recommends that the Under Secretary of Defense (Comptroller) update the Biennial Plan to:

RECOMMENDATION 2a: Identify specific instances of noncompliance with accounting standards and regulations and actions to correct those noncompliances for each finance, accounting, and feeder system.

DoD COMMENTS: Partially concur. Instances of material noncompliance with accounting standards and regulations and actions to correct deficiencies were identified in the plan for the DFAS finance and accounting systems. The Department also has identified instances of noncompliance in some of the Department's critical feeder systems. Actions to correct these instances of noncompliance also have been identified. The DoD Components will be asked to identify additional instances of material noncompliance as well as actions to correct those deficiencies in their feeder systems. However, the Biennial Plan is a high level strategic plan and the objective of the plan was not, and should not be, to document each specific deficiency and corrective action. Thus, the amount of detail in the plan should be sufficient to address overall efforts but need not address every detail of every action that may be taken. Instead, the plan discusses major deficiencies and ongoing corrective actions in the Department. Specific instances of noncompliance and the actions to correct those noncompliances should be part of each system manager's action plans that support the Biennial Plan and may be found in documents such as the DFAS Automated Strategic Business Plan and comparable plans of the various DoD Components. There currently is no intent to identify specific instances of noncompliance for legacy systems that will be replaced or discontinued.

RECOMMENDATION 2b: Identify the specific internal control weaknesses and actions to correct those weaknesses for each finance, accounting, and feeder system.

DoD COMMENTS: Partially concur. Instances of material internal control weaknesses were identified in the plan for DFAS finance and accounting systems. The Department also has identified material internal weaknesses for some of the critical feeder systems. Material internal control weaknesses and actions to correct those weaknesses in the remaining feeder systems should be identified when the systems are evaluated. However, the Biennial Plan is a high level strategic plan, and the objective of the plan was not, and should not be, to document every specific internal control weakness and corrective action. Thus, the amount of detail in the plan should be sufficient to address overall efforts but need not address every detail of every action that may be taken. Instead, the plan discusses material weaknesses and ongoing corrective actions in the Department. Specific instances of internal control weaknesses and the actions to correct those weaknesses should be part of each system manager's action plans that support the Biennial Plan and may be found in documents such as the DFAS Automated Strategic Business Plan and comparable plans of the various DoD Components. There currently is no intent to identify specific instances of noncompliance for legacy systems that will be replaced or discontinued.

RECOMMENDATION 2c: Identify the resources needed to correct and fully integrate the finance, accounting, and feeder systems.

DoD COMMENTS: Partially concur. Resources needed to correct DFAS finance and accounting systems were identified in the Biennial Plan. However, resources allocated for feeder systems are not always separately identified or designated as correcting financial management (vice other functional) deficiencies. Additionally, some changes in feeder systems may correct both financial and other functional deficiencies and program managers often do not identify or allocate resources between financial and functional efforts when such efforts fix both financial and other related functional weaknesses. Therefore, it is not always feasible to identify the costs of correcting solely financial management weaknesses separately from the cost of correcting other functional deficiencies in feeder systems. There currently is no intent to provide and, therefore identify, resources for legacy systems that will be replaced or discontinued.

RECOMMENDATION 2d: Identify measurable intermediate target dates to correct each finance, accounting, and feeder system and overall milestones to correct all finance, accounting, and feeder systems.

DoD COMMENTS: Partially concur. Intermediate target dates were identified in the Biennial Plan for the DFAS finance and accounting systems. The Department also has identified intermediate target dates for some of the Department's critical feeder systems. As program feeder system evaluations continue for the remaining feeder systems, the Department plans to identify intermediate target dates to correct deficiencies. There currently is no intent to identify intermediate target dates for legacy systems that will be replaced or discontinued.

RECOMMENDATION 2e: Define statements of objectives, performance measures, and schedules that address each system's deficiencies, and designate individual and organizational responsibilities for each system for the Special Interest Items addressing the integration of systems and the correction of data accuracy problems and internal control weaknesses.

DoD COMMENT: Partially concur. The Biennial Plan defines the statements of objectives, performance measures, and schedules for the DFAS finance and accounting systems, as well as several of the Department's critical feeder systems. The Biennial Plan also identifies individual and organizational responsibilities. It is not beneficial or practical to track and report this level of detail for legacy systems that will be eliminated.

RECOMMENDATION 2f: Monitor preparation of the systems inventory by DFAS and the Services and ensure that the inventory includes all critical financial management systems and that any differences between the systems inventory and the Biennial Plan discussions are explained.

DoD COMMENT: Partially concur. The Under Secretary of Defense (Comptroller) has and will continue to monitor the preparation of the systems inventory by the DFAS and the Military Departments in an attempt to ensure that the inventory includes all financial management and related critical feeder systems. As noted in the plan, beginning in FY 1998, DoD included program feeder systems in the inventory. Additional systems discussed in the Biennial Plan were displayed for informational purposes only but were not required to be reported as part of DoD's critical financial management systems. There are no differences between the systems inventory and the Biennial Plan that require explanation.

RECOMMENDATION 2g: Delete inappropriate content discussed under "Other Matters of Interest" in this report.

DoD COMMENT: The Department does not believe that the Biennial Plan contains inappropriate content. The Biennial Plan was written to conform with congressional mandates and OMB guidelines that require the Department to report on other matters of interest including impediments to achieving audited financial statements. It is recognized that reasonable individuals may disagree whether something is an impediment, or if so, the extent to which it is an impediment.

Evaluation Team Members

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